



The Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the State.

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Missouri's (State's) financial activities for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal.

FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

Government-Wide:

- *Net Assets.* Assets of the State of Missouri exceeded liabilities at the close of fiscal year 2010 by \$28.5 billion. Of the \$28.5 billion, "unrestricted net assets" is reported as a negative \$1.8 billion, offset by \$4.4 billion in "restricted net assets". A positive balance in unrestricted net assets would represent the amount available to be used to meet a government's ongoing operations.
- *Changes in Net Assets.* The State's total net assets decreased by \$67.0 million in fiscal year 2010. Net assets for business-type activities decreased by \$435.7 million.
- *Excess of Revenues over (under) Expenses.* During fiscal year 2010, the State's total revenues of \$26.6 billion were \$67.0 million less than total expenses (excluding transfers) of \$26.7 billion. Of these expenses, \$16.0 billion were covered by program revenues. General revenues, generated primarily from various taxes, totaled \$10.6 billion.

Fund-Level:

- *Governmental Funds – Fund Balance.* At the close of fiscal year 2010, the State's governmental fund assets exceeded liabilities by \$4.9 billion, an increase of \$638.7 million or 15.0% from the prior year. The increase was primarily due to an increase in cash and cash equivalents and investments of \$479.8 million. This was primarily due to a \$745.1 million increase in the Missouri Road Fund. The increase in cash and cash equivalents and investments for this fund was due to proceeds from bond issuances.
- *General Fund – Fund Balance.* At the end of the current fiscal year, the State's General Fund reported a balance of \$1.2 billion.

Additional information regarding individual funds begins on Page 9.

Debt Issued and Outstanding:

- The primary government's total long-term obligations related to bonds payable increased \$887.0 million or 24.0% over the prior year. The outstanding bonds payable represents 56.6% of financial assets (cash, receivables, and investments) and 11.9% of total assets. The net increase in bonds payable resulted from an increase of \$1,085,000,000 due to issuances of State Road Bonds which offset bond payments of \$197,995,000. Additional detail is available in *Note 12*.

Revenue Limit:

- The State Constitution limits the State's ability to retain revenue collected over an amount set by a constitutional amendment known as Article X. Excess revenue of 1% or more must be refunded to the taxpayers each year. During fiscal year 2010, the State did not exceed the revenue limit.

OVERVIEW OF THE FINANCIAL STATEMENTS

The State's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements:

The government-wide financial statements are designed to provide readers with a broad overview of the State's finances in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Increases or decreases in net assets may serve as a useful indicator of the State's financial position.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of when the cash is received. Thus, revenues and expenses are reported in the statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report three activities:

Governmental Activities are primarily supported by taxes and intergovernmental revenues. They include general government, education, natural and economic resources, transportation and law enforcement, and human services.

Business-Type Activities are intended to recover all or a significant portion of their costs through user fees and charges. They include constructing or operating state park facilities, fairgrounds, historical properties and office buildings, hospital services, warehousing, merchandising, publishing maps and documents and insurance coverage. Also included are the operations of the State Lottery, Unemployment Compensation, and the Petroleum Storage Tank Insurance funds.

Discretely Presented Component Units are operations for which the State has financial accountability, but are legally separate. They include the college and universities, Missouri Development Finance Board, Missouri Agricultural and Small Business Development Authority, Missouri Transportation Finance Corporation, and Missouri Wine and Grape Board.

Fund Financial Statements:

The fund financial statements present more detailed information about the government's operations than the government-wide statements. The State uses fund accounting to ensure and demonstrate compliance with statutory requirements. The funds of the State can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. Governmental funds are used to account for most of the basic services provided by the State. Unlike the government-wide financial statements, governmental fund financial statements focus on short-term inflows and outflows of current financial resources and utilize the modified accrual basis of accounting. This presentation focuses on when cash will be received and disbursed making the statements useful in evaluating a government's financing requirements in the near future.

Governmental funds include the general, special revenue, capital projects, debt service, and permanent funds. Major funds include general, public education, conservation and environmental protection, transportation and law enforcement, and the Missouri Road Fund which are presented in separate columns. Data from other governmental funds are combined into a single column for aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements in supplementary information.

A user can compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements, a reconciliation to facilitate this comparison is provided on the page immediately following each governmental fund financial statement.

Proprietary funds. Proprietary funds are used to account for activities similar to private businesses in which goods and services are sold for specified fees. Generally, the State uses enterprise funds to account for activities that provide goods and services to the general public. These include constructing or operating state park facilities, fairgrounds, historical properties and office buildings, hospital services, warehousing, merchandising and publishing maps and documents. Also included are the operations of the State Lottery, Unemployment Compensation, and the Petroleum Storage Tank Insurance funds. Internal service funds report activities that provide supplies and services for the State's other programs and activities. The State uses internal service funds to account for insurance and health care plans, as well as administrative services for other state agencies, such as fleet management, data processing, and telecommunication services. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds focus on economic resources and utilize the full accrual basis of accounting. The proprietary fund financial statements provide separate information for the State Lottery, Unemployment Compensation, and Petroleum Storage Tank Insurance, which are considered major enterprise funds. Non-major enterprise funds are also combined into a single column for aggregated presentation. All internal service funds are combined into a single column in the proprietary fund financial statements. Individual fund data for the non-major enterprise and internal service funds is provided in the form of combining statements in supplementary information.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside State government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are not available to support the State's own programs. The fiduciary funds are presented using the full accrual basis of accounting.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information (RSI) including a budgetary comparison schedule for the General Fund and major special revenue funds. Other supplementary information includes the combining statements for the general, non-major governmental, non-major enterprise, internal service, fiduciary, and non-major component unit funds. It also includes the statistical section as well as budgetary comparison schedules for the Missouri Road Fund, non-major special revenue, debt service, and permanent funds.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets:

The State's total net assets decreased \$67.0 million or 0.2% during fiscal year 2010. This decrease resulted primarily from an increase in long-term and other liabilities of \$1.9 billion. The major contributing factors were an increase in other bonds payable of \$958.2 million, an increase in other postemployment benefits obligation of \$107.3 million, and an increase in contingent liabilities of \$99.4 million. Net assets invested in capital assets net of related debt and restricted net assets, which do not represent resources available to pay day-to-day operating expenses, increased by \$510.8 million or 1.7%. The net assets invested in capital assets net of related debt and restricted net assets increase was primarily due to an increase in capital assets of \$535.0 million.

Invested in capital assets net of related debt, such as bonds payable or capital lease obligations, is the largest component of the State's net assets at \$25.9 billion or 90.8%. These assets include land, infrastructure, buildings, and equipment which are not easily converted to cash or readily available to pay state debts as they come due.

Restricted net assets of the primary government totaled \$4.4 billion or 15.6% of total net assets vs. 12.4% from the prior year. Net assets are restricted for several reasons including constitutional, legal, enabling legislation or external requirements. Examples of restricted net assets include lottery proceeds restricted for public education, funds restricted for debt service, and certain sales taxes restricted for the maintenance of highways or state parks and conservation areas. Also, many federal funds are restricted to funding certain programs.

The following table displays the current and prior year government-wide condensed Statement of Net Assets.

STATEMENT OF NET ASSETS						
(In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009*	2010	2009*	2010	2009*
ASSETS:						
Current and Other Assets	\$ 7,964,964	\$ 6,793,329	\$ 539,174	\$ 426,274	\$ 8,504,138	\$ 7,219,603
Capital Assets, Net	30,105,756	29,570,764	48,599	48,652	30,154,355	29,619,416
<i>Total Assets</i>	<u>38,070,720</u>	<u>36,364,093</u>	<u>587,773</u>	<u>474,926</u>	<u>38,658,493</u>	<u>36,839,019</u>
LIABILITIES:						
Other Liabilities	1,875,603	1,601,584	38,047	201,463	1,913,650	1,803,047
Long-Term Liabilities	7,301,962	6,238,073	931,286	219,300	8,233,248	6,457,373
<i>Total Liabilities</i>	<u>9,177,565</u>	<u>7,839,657</u>	<u>969,333</u>	<u>420,763</u>	<u>10,146,898</u>	<u>8,260,420</u>
NET ASSETS:						
Invested in Capital Assets,						
Net of Related Debt	25,853,521	26,247,223	48,483	48,442	25,902,004	26,295,665
Restricted	4,440,699	3,537,444	7,949	6,771	4,448,648	3,544,215
Unrestricted	(1,401,065)	(1,260,231)	(437,992)	(1,050)	(1,839,057)	(1,261,281)
<i>Total Net Assets</i>	<u>\$ 28,893,155</u>	<u>\$ 28,524,436</u>	<u>\$ (381,560)</u>	<u>\$ 54,163</u>	<u>\$ 28,511,595</u>	<u>\$ 28,578,599</u>
*Fiscal year 2009 amounts have been restated.						

Changes in Net Assets:

The schedule below reflects how the State's net assets changed during the year. The State collected program revenues of \$16.0 billion and general revenues of \$10.6 billion for total revenues of \$26.6 billion during fiscal year 2010. Expenses for the State during fiscal year 2010 were \$26.7 billion. As a result of the deficient revenues to cover expenses, the total net assets of the State decreased \$67.0 million, net of contributions and transfers.

The following table displays the current and prior year government-wide condensed Statement of Activities.

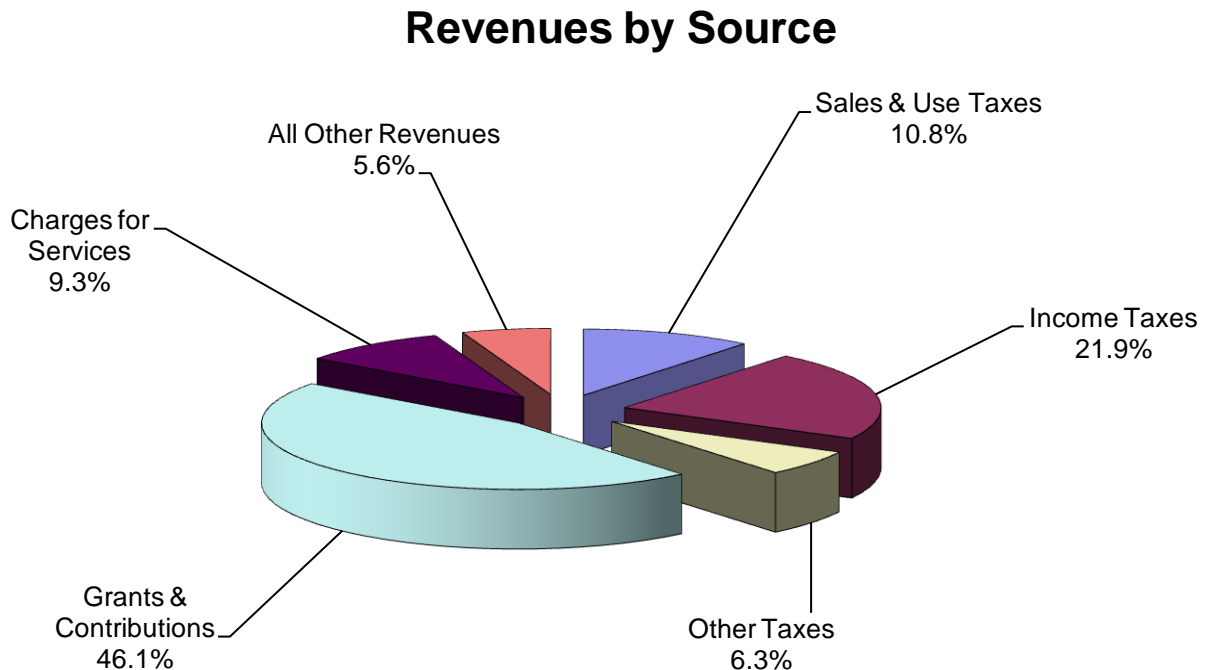
STATEMENT OF ACTIVITIES						
(In Thousands of Dollars)						
	Governmental Activities		Business-Type Activities		Total	
	2010	2009*	2010	2009*	2010	2009*
REVENUES:						
Program Revenues:						
Charges for Services	\$ 2,204,602	\$ 2,059,037	\$ 1,040,846	\$ 1,041,446	\$ 3,245,448	\$ 3,100,483
Operating Grants and Contributions	9,484,134	8,317,356	1,823,728	967,324	11,307,862	9,284,680
Capital Grants and Contributions	1,454,029	966,394	---	---	1,454,029	966,394
General Revenues:						
Sales and Use Taxes	2,573,368	2,635,068	---	---	2,573,368	2,635,068
Income Taxes	5,203,345	5,547,542	---	---	5,203,345	5,547,542
Unemployment and Other Taxes	1,489,579	1,449,567	---	---	1,489,579	1,449,567
Other Revenues	1,329,262	568,881	2,533	10,152	1,331,795	579,033
<i>Total Revenues</i>	<u>23,738,319</u>	<u>21,543,845</u>	<u>2,867,107</u>	<u>2,018,922</u>	<u>26,605,426</u>	<u>23,562,767</u>
EXPENSES:						
General Government	1,128,729	1,182,233	---	---	1,128,729	1,182,233
Education	6,813,858	6,589,358	---	---	6,813,858	6,589,358
Natural and Economic Resources	1,052,996	1,043,449	---	---	1,052,996	1,043,449
Transportation and Law Enforcement	2,726,626	2,375,104	---	---	2,726,626	2,375,104
Human Services	11,711,030	10,898,796	---	---	11,711,030	10,898,796
State Lottery	---	---	724,914	726,106	724,914	726,106
Unemployment Compensation	---	---	2,216,078	1,292,531	2,216,078	1,292,531
Petroleum Storage Tank	---	---	13,925	17,186	13,925	17,186
State Fair Fees	---	---	3,843	4,303	3,843	4,303
State Parks and DNR	---	---	9,106	14,211	9,106	14,211
Historic Preservation	---	---	1,145	714	1,145	714
Veterans' Homes	---	---	70,818	62,378	70,818	62,378
Surplus Property	---	---	2,541	1,759	2,541	1,759
Revenue Information	---	---	1,513	5,345	1,513	5,345
All Other Expenses	195,308	210,342	---	---	195,308	210,342
<i>Total Expenses</i>	<u>23,628,547</u>	<u>22,299,282</u>	<u>3,043,883</u>	<u>2,124,533</u>	<u>26,672,430</u>	<u>24,423,815</u>
Increase (Decrease) in Net Assets before Contributions & Transfers	109,772	(755,437)	(176,776)	(105,611)	(67,004)	(861,048)
<i>Transfers</i>	<u>258,947</u>	<u>257,441</u>	<u>(258,947)</u>	<u>(257,441)</u>	<u>---</u>	<u>---</u>
Change in Net Assets	368,719	(497,996)	(435,723)	(363,052)	(67,004)	(861,048)
<i>Net Assets - July 1</i>	<u>28,524,436</u>	<u>29,022,432</u>	<u>54,163</u>	<u>417,215</u>	<u>28,578,599</u>	<u>29,439,647</u>
<i>Net Assets - June 30</i>	<u>\$ 28,893,155</u>	<u>\$ 28,524,436</u>	<u>\$ (381,560)</u>	<u>\$ 54,163</u>	<u>\$ 28,511,595</u>	<u>\$ 28,578,599</u>
*Fiscal year 2009 amounts have been restated.						

Governmental Activities

The net assets of governmental activities increased \$368.7 million in fiscal year 2010. Revenues for the governmental activities totaled \$23.7 billion, while expenses totaled \$23.6 billion in 2010.

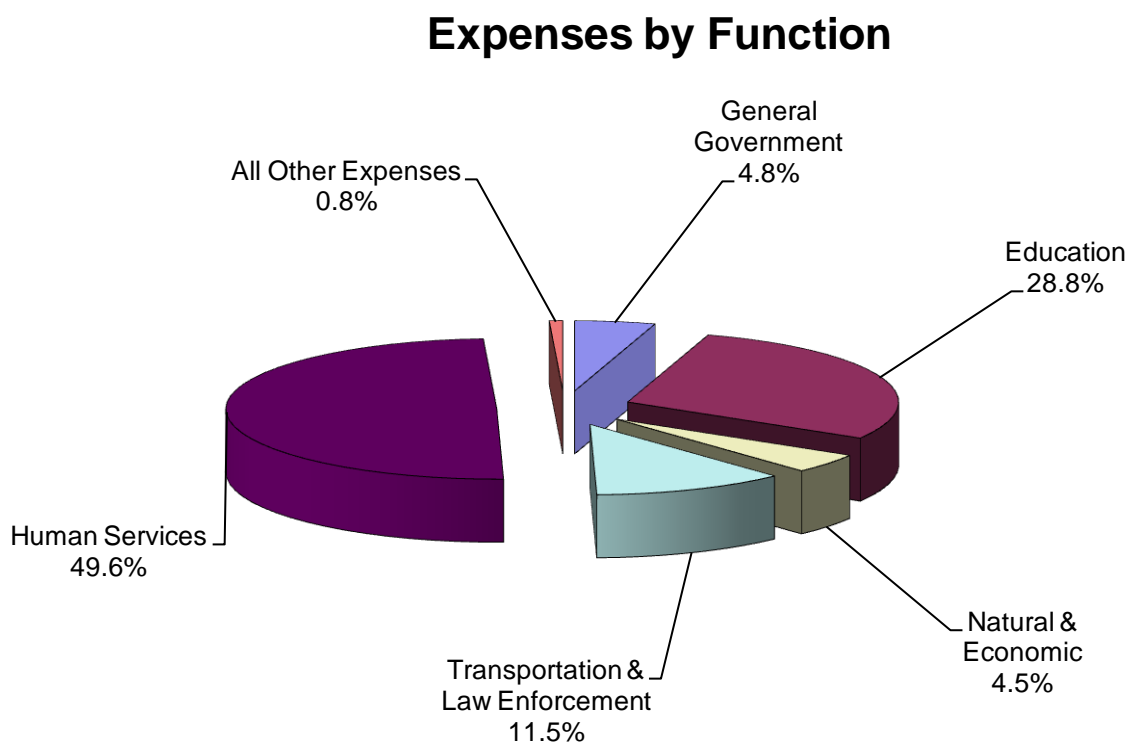
General and program revenues of governmental activities increased \$2.2 billion during the fiscal year. The increase in revenue was due primarily to an increase of \$1.7 billion in grants and contributions, related to funding received as part of the American Recovery and Reinvestment Act of 2009.

As shown in the Revenues by Source chart below, approximately 39.0% of revenues from all sources earned came from taxes. Grants and contributions, which represents amounts received from other governments/entities, primarily the federal government, provided 46.1% of total revenue. Charges for services contributed 9.3% and various other revenues provided 5.6% of the remaining governmental activity revenue sources.



The State's governmental activities program expenses increased \$1.3 billion during fiscal year 2010. General Government expenses decreased \$53.5 million while Education, Natural and Economic Resources, Transportation and Law Enforcement, Human Services, and Other Expenses increased \$1.4 billion.

As shown in the Expenses by Function chart below, expense for Human Services makes up the largest portion - 49.6% - of total governmental activities expenses.

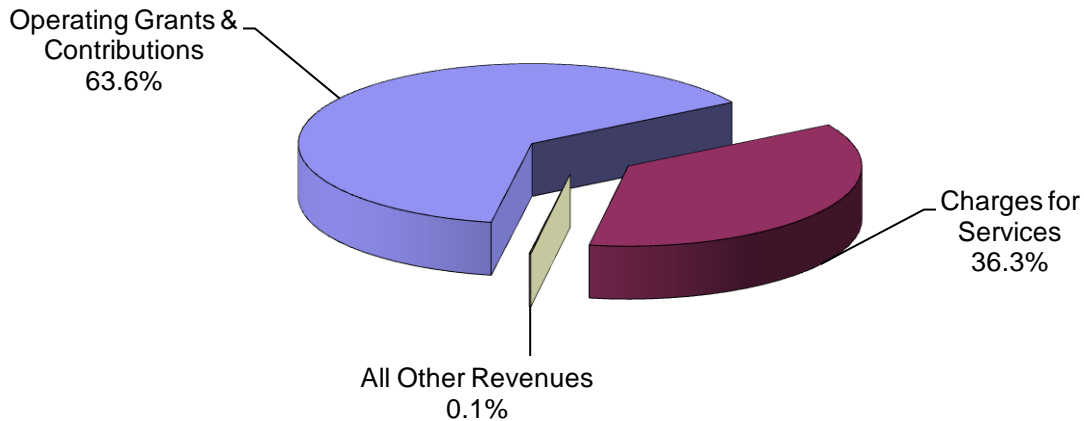


Business-Type Activities

Net assets of the State's business-type activities decreased \$435.7 million in fiscal year 2010. Business-type revenues increased by \$848.2 million during the current fiscal year. Program expenses of business-type activities increased \$919.4 million from fiscal year 2009 to 2010.

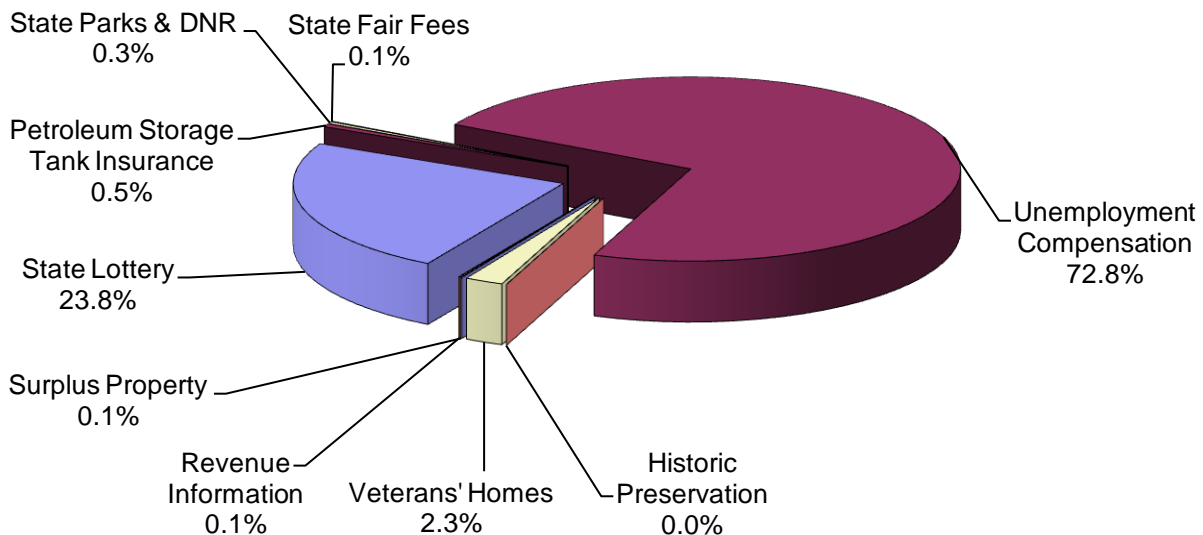
Revenues of business-type activities totaled \$2.9 billion. As shown in the Revenues by Source chart below, 36.3% of the revenues came from charges for services. Operating grants and contributions provided 63.6% of the total revenue and all other revenues provided 0.1%.

Revenues by Source



Expenses of business-type activities totaled \$3.0 billion. As shown in the Expenses by Fund chart below, the Unemployment Compensation makes up the largest portion with 72.8% of total business-type expenses. State Lottery comes in second at 23.8%, followed by veterans' homes at 2.3%, petroleum storage tank at 0.5%, state parks and DNR at 0.3%, revenue information at 0.1%, surplus property at 0.1%, state fair fees at 0.1%, and historic preservation at 0%.

Expenses by Fund



FINANCIAL ANALYSIS OF THE STATE'S INDIVIDUAL FUNDS

Governmental Funds:

At the end of fiscal year 2010, the State's governmental funds reported combined ending fund balances of \$4.9 billion. Approximately 63.9% is unreserved and available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) for budget reserve, 2) to pay debt service, 3) for loans receivable, and 4) for a variety of other purposes.

Fund balances (in thousands) for governmental funds are as follows:

	General Fund	Public Education	Conservation and Environmental Protection	Transportation and Law Enforcement	Missouri Road Fund	Non-Major	Total
Unreserved	\$ 645,567	\$ 241,064	\$ 342,817	\$ 207,169	\$ 1,345,389	\$ 341,387	\$ 3,123,393
Reserved	556,528	58	921,376	6,761	118,543	159,352	1,762,618
Total	\$ 1,202,095	\$ 241,122	\$ 1,264,193	\$ 213,930	\$ 1,463,932	\$ 500,739	\$ 4,886,011

The General Fund is the chief operating fund of the State. At the end of fiscal year 2010, the State's General Fund reported a total fund balance of \$1.2 billion. The net decrease in fund balance during fiscal year 2010 was \$103.8 million. A contributing factor in this was that a portion of the master lease debt was transferred from the General Fund to the internal service funds. Revenues of the General Fund totaled \$18.4 billion in fiscal year 2010, an increase of \$1.8 billion from fiscal year 2009. The most significant increase in revenues was a \$2.3 billion for contributions and intergovernmental. Expenditures of the General Fund totaled \$15.9 billion in fiscal year 2010, an increase of \$1.7 billion from fiscal year 2009. The major contributing factors to this was an increase in expenditures for human services of \$789.1 million, an increase of \$639.6 million for education, and an increase of \$298.2 million in transportation and law enforcement. The increases in revenues and expenditures were partially due to funding received from the American Recovery and Reinvestment Act of 2009.

The Public Education Fund provides general and special education services to the children of the State and other related functions such as library services and student loans. Total fund balance decreased by \$102.3 million. Revenues of the public education funds totaled \$1.3 billion in fiscal year 2010, a decrease of \$0.5 million from fiscal year 2009. The major factor that contributed to this was a decrease of \$13.4 million in miscellaneous revenues. Expenditures for the Public Education Fund totaled \$4.2 billion for the fiscal year, a decrease of \$411.3 million from fiscal year 2009. The decrease was primarily due to a reduction in education expenditures of \$415.3 million, which was offset by a decrease in transfers in of \$466.2 million.

The Conservation and Environmental Protection Fund provides for the preservation of the State's wildlife and environment. The fund balance increased by \$23.3 million due to an increase of \$18.3 million in contributions and intergovernmental revenues and an increase of \$4.4 million in penalties and unclaimed property during the fiscal year. An increase of \$20.6 million in expenditures, combined with the increase in revenues, caused fund balance to increase at a smaller rate than in previous fiscal years.

The Transportation and Law Enforcement Fund provides transportation services, road construction and maintenance, and the enforcement of vehicle laws and traffic safety. The fund balance decreased by \$8.0 million in fiscal year 2010. The major contributing factor was a decrease in licenses, fees, and permits revenue of \$22.5 million.

The Missouri Road Fund accounts for revenues from highway users' fees, federal reimbursements for highway projects, and bond proceeds to be used for costs of constructing and maintaining an adequate state highway system. The fund balance increased by \$846.6 million in fiscal year 2010. Debt issuance was the primary factor that contributed to the fund balance increase. Revenues of the Missouri Road Fund increased during fiscal year 2010 by \$378.1 million primarily due to an increase of \$238.7 million in miscellaneous revenues, related to bond proceeds, and an increase of \$148.0 million in contributions and intergovernmental revenues.

Proprietary Funds:

The State has three major proprietary funds: State Lottery, Unemployment Compensation and the Petroleum Storage Tank Insurance Fund. The State Lottery Fund was established in 1986 to account for the sale of lottery tickets and lottery operations. Since 1992, public education has been the sole beneficiary of lottery proceeds. Unemployment Compensation accounts for contributions and payments collected from Missouri employers under the provision of the "Unemployment Compensation Law." This tax finances benefits for workers who become unemployed through no fault of their own. The Petroleum Storage Tank Insurance Fund accounts for moneys collected from transport load fees and participating owners of petroleum storage tanks. The fund pays cleanup expenses for petroleum leaks or spills from underground storage tanks and certain above ground storage tanks as well as third party property damage or bodily injury resulting from such discharges. This fund is one of the largest insurers of storage tanks in the country.

The State Lottery Fund's net assets increased by \$1.1 million. Operating revenues increased by \$2.9 million during the fiscal year which was partially offset by an increase in transfers out of \$1.2 million. The increase in operating revenues was mainly due to a rise in ticket sales from fiscal year 2009 of \$3.4 million. The rise in ticket sales contributed to the increase in transfers out.

The Unemployment Compensation Fund's net assets decreased by \$438.9 million due to the increased number of unemployment claims resulting from the current national economic condition. Missouri borrowed \$536.2 million from the federal government during fiscal year 2010 to continue to pay unemployment benefits.

The Petroleum Storage Tank Insurance Fund's net assets decreased by \$0.3 million. Operating expenses decreased by \$3.3 million primarily due to decreased program expenses. However, operating revenues also decreased by \$1.9 million. Licenses, fees, and permits revenue was the major contributing factor in the decrease of operating revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget is the appropriated budget that is truly agreed to and finally passed by the legislature, and signed by the Governor at the beginning of the fiscal year. The final budget includes emergency and supplemental appropriations, reverted and increases to estimated appropriations, which occur during the fiscal year.

Budgeted appropriations for fiscal year 2010 from the General Fund were \$24.5 billion original budget and \$25.0 billion final budget. Actual spending was \$23.4 billion. Reasons for the final budget variances include:

- Appropriation authority exceeded cash available for expenditures.
- Lapse of various appropriations.
- Multiple year grants are appropriated in one year but the expenditures may occur over several years.

Budgeted revenues/transfers in for fiscal year 2010, for the General Fund, were \$23.8 billion original budget and \$24.0 billion final budget. Actual revenue/transfers in was \$23.3 billion. The increase of \$4.7 billion in actual revenues/transfers in occurred due to funds received from the American Recovery and Reinvestment Act of 2009. Revenues/transfers in still did not meet the final projection for the fiscal year.

Refer to the *Notes to RSI*, Budgetary Reporting, on page 102 for more information on budgetary variances.

GOVERNMENT-WIDE CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2010, was \$30.2 billion (net of accumulated depreciation/amortization). This investment in capital assets includes construction in progress, software in progress, infrastructure in progress, land, permanent easements, land improvements, temporary easements, buildings and improvements, equipment, software, and infrastructure.

Capital Assets of the State include (in thousands):

	Governmental Activities	Business-Type Activities	Total
Construction in Progress	\$ 527,535	\$ 8,878	\$ 536,413
Software in Progress	30,985	---	30,985
Infrastructure in Progress	2,729,897	---	2,729,897
Land	2,869,843	8,946	2,878,789
Permanent Easements	1,461	---	1,461
Land Improvements	161,607	7,493	169,100
Temporary Easements	6,495	50	6,545
Buildings and Improvements	2,919,896	28,386	2,948,282
Equipment	1,185,006	44,363	1,229,369
Software	36,532	1,676	38,208
Infrastructure	43,589,497	---	43,589,497
<i>Subtotal</i>	54,058,754	99,792	54,158,546
Less Accumulated Depreciation/Amortization	(23,952,998)	(51,193)	(24,004,191)
Total Capital Assets, Net	\$ 30,105,756	\$ 48,599	\$ 30,154,355

Additional information on capital assets can be found in *Note 5* of this report.

Debt Administration:

At the end of fiscal year 2010, the primary government had total general obligation and other bonded debt outstanding of \$4.6 billion. Of this amount, \$528.9 million comprises debt backed by the full faith and credit of the government.

Principal amounts retired in fiscal year 2010 were \$71,165,000 for general obligation bonds and \$126,830,000 for other bonds.

The State of Missouri is proud to be one of only eight states to maintain a Triple-A credit rating from all three major credit rating agencies (Moody's Investor Services, Inc., Standard and Poor's, and Fitch Ratings, Inc.) on the State's General Obligation Bonds.

Outstanding Bonds Payable of the State include (in thousands):

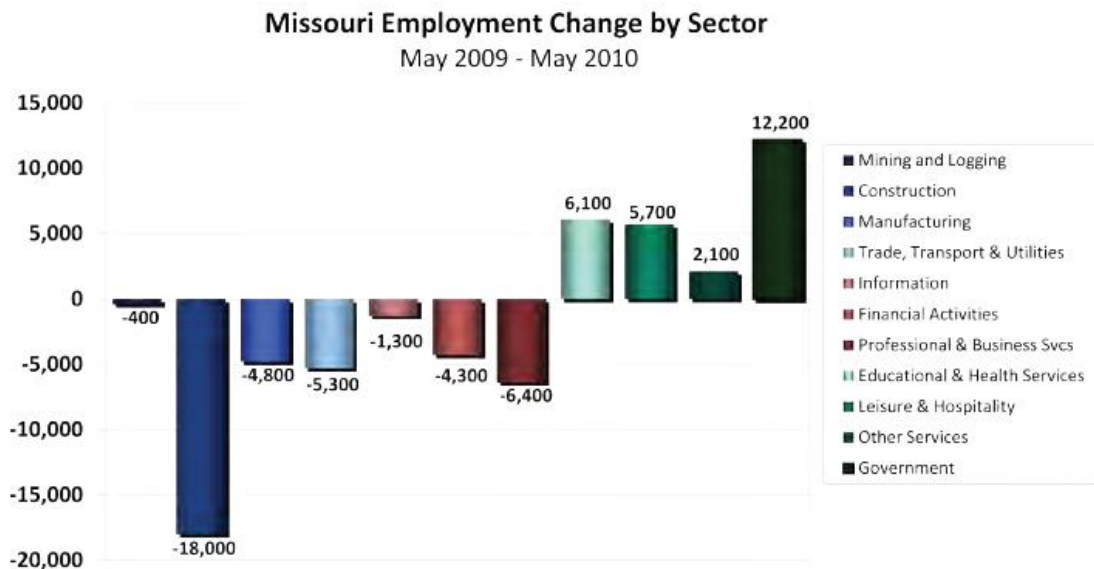
	Governmental Activities	Component Units	Total
General Obligation Bonds	\$ 528,910	\$ ---	\$ 528,910
Other Bonds	4,060,855	1,683,313	5,744,168
Total	\$ 4,589,765	\$ 1,683,313	\$ 6,273,078

Additional information on long-term debt can be found in *Notes 11, 12, and 13* of this report.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The State of Missouri completed fiscal year 2010 with a balanced budget. Net general revenue collections decreased 9.1% from fiscal year 2009 ending with an amount of \$6.8 billion. The fiscal year 2011 budget, as appropriated in May 2010, would require growth of 2.3% from fiscal year 2010 in general revenue collections to support spending. Expenditure restrictions and Federal budget stabilization funds will result in a balanced 2011 budget.

As a major manufacturing, financial, and agricultural state, Missouri's economic health is tied closely to that of the nation. The national economy has been in a recession since December 2007. Growth rebounded in early 2010, but has since slowed to slightly below average. Missouri's unemployment rate decreased 0.4% in fiscal year 2010. The June 2010 unemployment rate was 9.3% compared to the June 2009 unemployment rate of 9.7%. The national unemployment rate was 9.6% in June 2010. The graph below shows the growth and decline in employment by employment sector.



Source: 2010 Missouri Economic Report

Employment change by industry identifies the types of jobs being created and lost in the state. Comparing May 2010 to May 2009, four industry groupings have had employment increases in Missouri. Construction employment declined by 18,000 while professional and business services declined by 6,400 over the period. The government sector had the largest growth over the year, partly from the influx of temporary census workers. The education and health service industry also increased by 6,100 over the year.

The current economic environment presents Missouri with unusual circumstances and challenges. The past year has been marked by improvement in the Missouri economy. Consumer sentiment indices have shown some improvement, but consumers are expected to remain cautious with spending as the economic recovery will likely be slow. However, numerous risks endanger the economy still today. The winding down of stimulus domestically and the slow job growth for Missouri, are just a few risks the State is dealing with. Without a sustained employment turnaround, general revenue growth will remain tepid. Despite these concerns, the State's financial position continues to be strong. Missouri has set aside a portion of the American Recovery and Reinvestment Act of 2009 to ensure a balanced budget in fiscal year 2011.

Missouri Department of Transportation (MoDOT) is working to cope with the significant drop in funding by dramatically decreasing the number of projects. During fiscal year 2010, MoDOT approved a five year Highway Construction Program, this program contains construction projects averaging only \$500 million per year. The current economy has resulted in a favorable bidding environment for construction projects. As of September 1, 2010, MoDOT has awarded 50 fiscal year 2011 projects at a cost of \$96.9 million. These were estimated at a cost of \$107.3 million, a 9.7% savings.

Despite funding challenges, the State is working to stimulate the economy, increase efficiency, and decrease costs. In fiscal year 2010, Missouri passed House Bill 1 in a special session that creates a new membership tier for the Missouri State Employees' Retirement System (MOSERS) and Missouri Patrol Employees' Retirement System (MPERS) for employees hired on or after January 1, 2011. For those employees, the new tier requires a 4% employee contribution while increasing the retirement age and vesting period. Special session House Bill 2, the Manufacturing Jobs Act, was also passed which allows qualified automotive manufacturing facilities or supplies that bring next-generation production lines to the State to retain withholding taxes. Senate Bills 1007 and 842 are estimated to save nearly \$19 million a year by allowing the Department of Health and Senior Services to contract for assessments for in-home services. Finally, House Bill 1868 combines the State Water Patrol and the State Highway Patrol into one agency. The merger will save the State \$3 million a year in administrative savings without reducing the number of uniformed water patrol officers or highway patrol troopers.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of Administration, Division of Accounting, P.O. Box 809, Jefferson City, MO 65102.